



# Memorandum

**TO:** CITY COUNCIL

**FROM:** Mayor Chuck Reed  
Councilmember Kansen Chu  
Councilmember Sam Liccardo

**SUBJECT:** SEE BELOW

**DATE:** June 3, 2011

**APPROVED:**

*Chuck Reed*

**DATE:**

*6/3/11*

*Sam Liccardo*

*Kansen Chu*

**SUBJECT: AMENDMENT TO THE CISCO SYSTEMS DEVELOPMENT AGREEMENT AND MODIFICATIONS TO THE CITY'S DEVELOPMENT AGREEMENT ORDINANCE**

## **RECOMMENDATIONS:**

Direct the Administration to:

1. Negotiate and prepare for City Council consideration in September 2011, amendments to the Development Agreement with Cisco Systems to:
  - a. Allow Cisco Systems to retain approved entitlements for Site 6 in Alviso;
  - b. Remove the second condition of the current agreement requiring half of the Phase 1 square footage to be built within 12 years; and
  - c. Retain the effectiveness of the 2000 agreement through 2020.
2. Prepare for City Council consideration in the August Priority Setting Session, a workload assessment to develop modifications to the Development Agreement Ordinance to streamline and strengthen the Ordinance to support and advance the City's Economic Strategy goals.

## **BACKGROUND:**

With regards to Recommendation 1:

Cisco Systems is San José's largest employer with a local workforce of over 16,000 employees. It owns and occupies more than 6 million square feet of office/R&D space at its headquarters campus on Tasman Drive in North San José. The company generates an estimated \$10 million in direct revenue annually to the General Fund and generated more than \$29 million in tax increment in 2010.

North of Route 237, in Alviso, Cisco also owns a 152-acre site. Entitlements for the development of 2.3 million square feet on that site were approved in 2000. A Development Agreement with Cisco was executed at that time that locked in then scarce square footage to be built within a prescribed time frame. Approximately 376,000 square feet was built by Cisco Systems. Even though the buildings were never occupied by Cisco Systems, they now house the operations and thousands of employees of IBM and Harmonic, Inc. consistent with the intent of the Development Agreement objectives and our economic development goals.

Cisco Systems is committed to growing its operations in North San José, but has no immediate plans to develop the rest of the Alviso site. The company should, however, be given the certainty and flexibility to respond to business needs as they arise in the future. If approved by City Council, amendments to the Development Agreement as recommended will give Cisco Systems confidence in our ability to be a responsive public partner in its future plans to grow its operations in San José.

With regards to Recommendation 2:

The City's Development Agreement Ordinance was adopted in the early 1980s. It is a powerful tool that can be used to advance our land use planning and economic development goals by allowing the City and property owners to agree to items outside of the normal negotiations. A Development Agreement provides greater certainty and assurance that subsequent changes in land use policies or economic development priorities will not undermine or prevent the ability to complete a long-range development project. A Development Agreement could be helpful for example, when a corporate headquarters campus that is proposed to be developed over many phases requiring large private investments over time, needs long-term certainty to protect that investment.

The Development Agreement Ordinance describes the required findings that the City Council has to make before approving a development agreement. The City has not reviewed the relevance of the findings since the adoption of the Ordinance. Therefore, we recommend that the City Attorney's Office in collaboration with the Department of Planning, Building and Code Enforcement and the Office of Economic Development be directed to re-evaluate the findings, procedures and requirements for the consideration of Development Agreements. Staff should prepare for the Council to consider as part of its Priority Setting Session in August, a workload assessment of the effort necessary to develop modifications to the Ordinance with an eye to facilitating the goals of our 2010-2015 Economic Strategy, expediting the process, and ensuring the findings are relevant.